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Economic Policy Research Foundation of Turkey

## **THE ECONOMIC CRISIS IMPACT ON INDUSTRIAL RELATIONS NATIONAL SYSTEM IN TURKEY:**

### **POLICY RESPONSES AS KEY RECOVERY TOOLS**

#### **NATIONAL RESEARCH REPORT**

**November 2012**

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## Executive Summary

This report is written as part of the project “The Economic Crisis Impact on Industrial Relations National System in Turkey: Policy Responses as Key Recovery Tools”, conducted simultaneously in three EU member states (Poland, Estonia, Bulgaria) and 3 candidate countries (Croatia, Former Yugoslav Republic of Macedonia and Turkey). The project aims to analyse the effect of the global economic crisis on national industrial relations and to introduce effective key recovery tools by examining the experiences of the aforementioned 6 countries. This document presents the Turkish experience, based on historical evidence reinforced by insights gained from the meetings held with the government representatives, workers’ and employers’ organizations, as well as the national debate held in Ankara on October 16, 2012.

Turkish industrial system is defined by many developments, including two military interventions in 1960 and 1980. The more liberal 1961 Constitution after the 1960 military intervention resulted in a prosperous environment for the trade unions and there was a tremendous increase in the number of trade union members in this period. The 1980 military intervention, however, changed this environment and trade union density declined due to disadvantageous policy implementations. As a result, the industrial relations system in Turkey has not developed to an extent where social dialogue is a major part of the policy-making process. However, legislative framework put in place after the military intervention in 1980 have changed very recently with a relatively more liberal law on employment relations and collective bargaining, and it is hoped that industrial relations will become stronger in Turkey in the future.

Turkey was hit by the economic crisis in circumstances mentioned above. In addition, as a result of several economic and financial crises that occurred in the 1990s as well as the beginning of 2000s, Turkish financial system was restructured with particular emphasis to the increasing resilience of the banking sector. In effect, the financial sector was not significantly affected from the crisis. For this reason, the government was convinced that the global economic crisis would not have significant effects in Turkey, and as a result, the crisis was attempted to be alleviated with measures that would not have caused fiscal imbalance, i.e., measures that are mostly temporary. Although the financial sector was in fact not significantly affected from the crisis, it was the domestic and foreign demand that caused a downturn in the economy, which resulted in a significant increase in unemployment rates, especially for the middle-aged.

The historical problems of unionization in Turkey resulted in an unstructured response from trade unions to the crisis. The workers’ unions attempted to mitigate the effects of the crisis for their members by asking for more benefits from the government, such as the restructuring of social security payments. However, a significant effect of the crisis have been to increase the level of cooperation between the employers’ associations and the workers’ unions: As a result of the abovementioned lag between the effects of the crisis and the government responses, the private sector and the trade unions felt the need to act before the effects of the crisis became deeper. The employers and the employee associations came together to form the campaign “There is a Remedy for the Crisis” in order to boost consumption and save the economy from an

even more significant downturn, and they succeeded in increasing the consumer confidence within five weeks. Also, the private sector organization, the Union of Chambers and Commodity Exchanges of Turkey (TOBB), in collaboration with the Ministry of Work, Employment and Social Security and the Turkish Ministry of National Education, launched a project called SKILLS'10. This project aimed to solve the structural unemployment problem in Turkey caused by a skills mismatch between the needs of the industry and the capabilities of the job-seekers. The project helped solve both the temporary unemployment problem caused by the crisis and the more serious structural unemployment problem in Turkey, as well as providing training for 38 thousand job-seekers, 20 thousand of which were placed in appropriate jobs.

In conclusion, this report presents that during the 2008 global economic crisis, social dialogue mechanisms in Turkey had certain problems in functioning effectively. However, the fact that the Turkish government was relatively late in responding to the global crisis helped social dialogue partners to come together and act collectively. Turkey's past crisis experiences were also a significant factor that mitigated the impact of the 2008 global economic crisis in Turkey. Cooperation of social dialogue partners during the crisis and the new law enacted in the beginning of November 2012 are both big steps in reviving social dialogue in Turkey, as well as minimizing the effects of a possible future crisis.

# The Economic Crisis Impact on Industrial Relations National System in Turkey: Policy Responses as Key Recovery Tools

## I. Introduction

Industrial relations is one of the most important tools through which strength in industries are maintained during a crisis. However, the nature and the extent of the effect of these relations differ amongst countries. This report is written as part of the project “The Economic Crisis Impact on Industrial Relations National Systems: Policy Responses as Key Recovery Tools”, conducted simultaneously in 3 EU member states (Poland, Estonia, Bulgaria) and 3 candidate countries (Croatia, FYROM and Turkey). The project aims to analyse the effect of the global economic crisis on the national industrial relations and to introduce effective key recovery tools by studying country experiences. This document reports the Turkish experience based on historical evidence reinforced by insights gained from the meetings held with the government representatives, workers’ and employers’ organizations, as well as a national debate held in Ankara at TEPAV premises on October 16, 2012.

The Turkish experience regarding the 2008-2009 economic crisis, have been somewhat different from what has been experienced in other countries in terms of the responses given, and the recovery period. One of the main factors behind this was the strong banking system at the start of the crisis, owing to the cumulative knowledge accumulated through previous financial crises Turkey had faced in the 1990s and early 2000s. The 2001 financial crisis resulted in the restructuring of the banking sector and strengthened the system, which is one of the main reasons that the Turkish banking system remained intact in the 2008 economic crisis. The stabilization package recommended by the IMF and the reforms put in place by the government after the 2001 crisis brought many changes in the banking sector. The most important of these reforms were securing the independence of the Central Bank by law, increasing the reserve ratios in order to create a stronger banking sector, and introducing a successful inflation targeting programme that effectively reduced inflation from 73 percent to about 8 percent in two years.

With a strong financial sector, initially the government’s perception towards the crisis was that it would not significantly affect Turkey, and rather than altering the legislative framework, temporary policies and incentive packages were adopted that focused on policies to increase domestic demand, and to keep unemployment at manageable levels. Turkey managed to recover from the crisis relatively quickly, but employment levels did not rebalance as quickly. The private sector, including both workers’ unions and the employers’ organizations were the

pioneers in launching initiatives to help make a recovery, both in goods and services, and the labour markets. The government did not take part in most of these initiatives initially and was much slower in reacting to the crisis. However, once these initiatives were launched, they received strong support from the government. Both private and public partners cooperated in initiating projects to mitigate the temporary employment effects of the crisis as well as attempting to solve the recurrent structural unemployment problems of Turkey.

This report analyses the structure of industrial relations in a historical and an economic perspective, to assess the degree to which industrial relations have been able to mitigate the effects of the crisis in Turkey, as well as identifying the tools exploited in alleviating the effects of the crisis. The analysis relates to both the extent and effect of the crisis and the traditional strength of the industrial relations system. The organisation of the report is as follows: The next section briefly describes the methodology used in this report. The framework of industrial relations in Turkey with special emphasis on the effects of the two military interventions that occurred in 1960 and 1980 on the structure of industrial relations in Turkey, as well as the current legal and policy framework in the Turkish industrial relations are analyzed in the third section. Section four outlines the dynamics of the crisis at a national level and attempts to identify the effects. The section also highlights the social dialogue mechanisms on national, cross/sectoral and company levels. The fifth section analyses the results of this social dialogue, emphasizing both the legislative changes and implementations. The final section concludes.

## **II. Methodology**

Turkey's national research presented in this report adopted a methodology comprised of three stages. These stages are background study and data analysis, face-to-face interviews with social dialogue partners, and national debate. The background study aimed to provide the general picture of industrial relations national system and social dialogue stakeholders, as well as the history of industrial relations and social dialogue in Turkey. With the obtained data, conditions and trends concerning the industrial relations environment during the crisis period were aimed to be documented. Face-to-face interviews aimed to provide detailed information on each stakeholder's contribution to the recovery from the crisis, as well as their opinions on major bottlenecks regarding the industrial relations national system in Turkey. National debate aimed to bring together all social dialogue partners for a discussion on what the key effective policy responses have been during the crisis period. National debate also provided an environment to discuss possible solutions for major bottlenecks in the current system. The components and methods of these three stages are detailed below.

The first stage of national research involved a background study and data analysis on the industrial relations national system and social dialogue in Turkey. This study set the framework for the next stages of national research, and provided a detailed picture of the current conditions of industrial relations national system and social dialogue. The background study and data analysis have also contributed significantly to the formation of a roadmap for the next

stages. At this stage, a literature review on Turkey's industrial relations was carried out, and data related to industrial relations, economy and labour was acquired from TurkStat, the Ministry of Work, Employment and Social Security, and OECD statistics. Analysis of data showed the peculiar path Turkish economy followed during crisis and recovery period. The background study pointed at certain structural problems that existed before the crisis period in Turkey's industrial relations national system.

The second stage of national research involved face-to-face interviews with social dialogue partners. These interviews highlighted the major bottlenecks in industrial relations and social dialogue in Turkey during the crisis period. The interviews provided information on different types of response mechanisms to the crisis, including lobbying activities and informal response methods such as campaigns. The interviews also allowed the national research team to analyse the effectiveness of these response methods and pinpoint the most active social dialogue partners during the crisis. For the second stage of national research, eight interviews were carried out with trade unions, employers' associations, private companies and government officials. National research team prepared questions for each interview, derived from the background study and data analysis stage. Each interviewed stakeholder was asked to provide reports, data or written material in order to support the response mechanisms they implemented during the crisis.

The third stage of national research involved a national debate, bringing together all social dialogue partners in Turkey. National debate was held at a time, when a new draft legislation regarding trade unions and collective bargaining was being reviewed at the Grand National Assembly of Turkey. During national debate, the social dialogue partners provided an analysis of the new law and its possible impacts, as well as a discussion on the policy responses given during crisis, and their effectiveness. Adequacy of each recovery tool was discussed in detail by each National Debate participant.

With the data and information acquired in these three stages of national research, a comprehensive analysis of industrial relations national system in Turkey and social dialogue was carried out. This report presents the findings of the aforementioned analysis.

### **III. Framework of industrial relations in Turkey**

Industrial relations are "the means by which the various interests involved in the labour market are accommodated, primarily for the purpose of regulating employment relationships".<sup>1</sup> According to the EU, these relationships are regulated "by means of interaction, dialogue and bargaining between the employers and employees' sides".

Social dialogue involves three partners (Figure 1). The first is the state which enacts laws and enforces them. The workers are the masses that are largely affected from the labour market

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<sup>1</sup> Source: ILO.

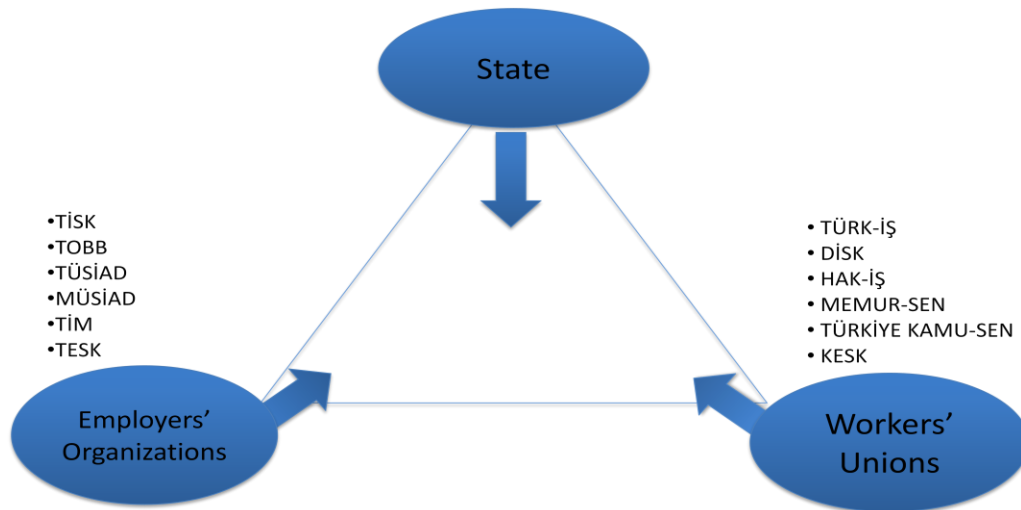
policies, and social dialogue is the main mechanism through which their voices can be heard. On the other hand, employers' organizations are also very important because they are the drivers of the economy. That is why it is crucial that these three partners come together in a common platform and reach an understanding or consensus on future policies and regulations that shape the industrial relations system of the country.

### 3.1. Historical Background

Industrial relations have a long history in Turkey. An agreement signed in 1774, regulating the rights of cup craftsmen in the province of Kütahya, could be considered as the first collective bargaining agreement in the Ottoman era. Although not having a similar structure and function to the contemporary unions, the first trade unions were founded later in the 19th century.

The republic was founded in 1923 and the first Turkish Labour Code was enacted in 1936. The code, based on French laws, guaranteed the rights and status of the workers. It was also ensured that the rights of the workers should be regulated and controlled by the State; therefore workers were not given unionization, strike or collective bargaining rights. Two years later, the Associations Act of 1938 clearly banned all class-based organizations including trade unions until 1946.

Figure 1. The social dialogue system in Turkey



The Turkish Ministry of Labour and the Social Security Institution (then called the Worker Security Institution) were both established in 1945. In 1946, the ban on trade unions was lifted. The first Turkish Trade Union Law was enacted in 1947 in order to restrict trade union activity as a result of the 1946 ban lift. In this restricting move, the law did not give workers collective bargaining rights or the right to strike.

Trade unions re-emerged first in 1946, but the first well-established trade unions in Turkey were founded in the 1950s. The Confederation of Turkish Trade Unions (TÜRK-İŞ) was founded in 1952 in order to unite the many trade unions founded in the previous six years. In the following



years, trade union activities were widespread all over Turkey, and the concept of trade unionization began to be accepted by most employers. However, trade unions were not strong in negotiations; and therefore, the main tool through which workers could achieve rights remained to be their votes in general elections.

The period after the 1960 military intervention was marked by import-substitution policies hand in hand with Keynesian macroeconomic policies that affected labour market interventions. In such an economic and political environment, the 1961 constitution following the 1960 military intervention had a more liberal stance towards workers' rights. The constitution secured unionization rights, and with 'Collective Bargaining, Strike and Lock-out Law' enacted in 1963, strike and collective bargaining rights were also granted to union members. The Progressive Workers' Union Confederation (DİSK) and the Confederation of Turkish Real Trade Unions (HAK-İŞ) was founded in 1967 and 1973, respectively. These improvements were the result of not only the new constitution but can also be attributed to the behaviour of coalition governments formed afterwards, who were impelled to implement policies benefitting the majority of the population in order to increase their share of votes in the following election.

After the 1960s, trade unions began to give more emphasis on social rights, rather than merely representing workers' side in employer-employee relationships. Union membership became more widespread in the 1960s and 1970s, so much so that, according to the official statistics, the number of unionized workers rose from 298 thousand in 1961 to 5.5 million in 1979 (Table 1). As it was possible to be a member of multiple trade unions, the numbers after the year 1970 might be misleading. Nevertheless, the number of trade union members in 1980 is thought to be around 1.5 million without double counting as compared to a mere 298 thousand in 1961.

**Table 1. Trade unions and trade union members (1961-1980)**

<b>Years</b>	<b>Number of trade union members</b>	<b>Number of trade unions</b>
1961	298,000	511
1966	374,000	704
1970	2,088,000	737
1977	3,800,000	863
1979	5,500,000	750
1980	5,700,000	733

Source: Turkish Ministry of Employment and Social Security

The increased number of members in trade unions raised the bargaining power of the trade unions, and as a result real wages reached levels well above average wages of countries that were economically similar.

The picture depicted above changed dramatically in the 1980s. In line with the gradual economic liberalization in Turkey as well as in the rest of the world, 1980s were insipid years for the trade unions in Turkey. In January 24, 1980, a new economic stability program in accordance with the IMF recommendations was announced, and the Turkish economy shifted towards a more liberal

and open economy. In such an environment, the 1980 military intervention affected trade unions adversely. The military regime following the coup suppressed trade union activities, collective bargaining was abolished, workers were deprived of their rights to strike, and even some of the trade unions were closed down. The post-military intervention 1982 constitution did not lead to the regaining of the trade union rights either. In 1983, trade union and collective bargaining laws were changed in line with the new constitution. All trade unions were banned from taking part in or supporting any kind of political activity. The repression of political unions in 1980s caused trade unions to lose their influence once again. As a result, with the base year as 1979, the real wage index in the manufacturing sector declined to 67.5 in 1988.

Many regulations have been implemented in the years following the 1980s in order to regulate workers' rights and job security in various sectors. The 1980 Constitution, and the 1983 Trade Union Law are still in force today. The following subsection outlines the major amendments and changes in employment and trade union regulations since then.

### **3.2 Legal and Policy Framework in IR**

The current legislation affecting the Industrial Relations system in Turkey could be summarized as follows:

- Labour Code (no. 4857), enacted in 2003:

The code brings an important change to the previous law no. 1475, enacted in 1971. Previously, chain fixed-term employment contracts (fixed-term contracts that repeat) were considered as open-ended employment contracts, so that the employee received the same rights and benefits as an employee with an open-ended contract. Law no. 4857 specifies that fixed-term employment contracts can now be renewed indefinitely in case of "good reason" without being considered as open-ended contracts. The conditions of good reason are not specified.

The law also specifies that, the employer must give a valid reason to end an open-ended contract one-sidedly, and membership and activity in trade unions were not specified as valid reasons to end the contract.

- Trade Union Law for Public Servants (no. 4688), adopted in 2001:

The law grants membership right and the right to take an active role in a trade union for public servants. It also provides the basis for collective bargaining between the state and the public servants.

- Trade Unions Act (no. 2821) and Collective Labour Agreement, Strike and Lockout Act (no. 2822), adopted in 1983:

These two acts regulate the establishment, activities and membership of trade unions. According to Law no. 2822, workers can strike only if there are conflicts to be resolved during the collective bargaining process. Strikes for other purposes are prohibited. Both of

these laws will become ineffective with the enactment of the new Law on Unions and Collective Employment Relations. The new law is expected to become effective in 2012.

Apart from the laws and regulations, there are over thirty social dialogue platforms that shape the industrial relations system in Turkey. The most prominent ones are:

- 1. The Economic and Social Committee:** The Committee was established in 1995 with the aim of including every social and economic partner to the economic and social policy-making process and monitoring and adapting the decisions taken by the European Economic and Social Committee. Its members are the Prime Minister; ministers of development, finance, economy, employment and social security, food, agriculture and livestock, science and technology, customs and trade, energy and natural resources, and the undersecretaries affiliated with these ministries; employers' and workers' organizations including TOBB, TÜRK-İŞ, TİSK, TESK, TZOB, HAK-İŞ, DİSK<sup>2</sup>; and other social partners assigned by the Prime Minister.

The Committee became a constitutional body in 2010.

- 2. The Tripartite Advisory Board:** The Board was established under the law no. 4857 in order to enhance the existing cooperation and dialogue between partners of industrial relations system. Its members are the Minister or the Undersecretary of Employment and Social Security, a representative from the first three workers' unions which have the highest number of members, three representatives from the employers' union with the highest number of members, and a representative from each public workers' union. The Board meets three times in a year (in January, May and September) and according to the workers' and employers' organizations, it is the most effective of all social dialogue mechanisms in Turkey.
- 3. The Employment Assembly:** The Assembly is composed of representatives from various institutions and organizations. Its aim is to provide a discussion forum for employment and work-relations. Its members include the Minister or the Undersecretary of Employment and Social Security and other related employees at the Ministry, the president of the Social Security Institution and the Turkish Employment Agency and representatives from the workers' and employers' organizations, among others. The Assembly gathered nine times since its establishment, and the last time the Assembly met was in 2004.
- 4. The Minimum Wage Setting Commission:** The Law No. 4857 states that the minimum wage is to be set by the Ministry of Employment and Social Security through the use of this Commission as a social dialogue device. The Commission's members are the Ministry of Employment and Social Security, the Ministry of Development, the Turkish Statistics Institution, the Treasury, the workers' union with the highest number of

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<sup>2</sup> See section 2.2.1 and 2.2.2 for the explanations of these abbreviations.

members (TÜRK-İŞ), the employer's organization with the highest number of members (TİSK).

5. **The Coordination Council for the Improvement of Investment Environment:** The Council includes some workers' unions (TÜRK-İŞ, HAK-İŞ, DİSK), TİSK as the employers' union and organizations such as TOBB, TÜSİAD, TESK, The International Investors Foundation (YASED), The Turkish Union of Agricultural Chambers (TZOB), and the Turkish Exporters Assembly (TİM).

These platforms are designed to increase social dialogue in Turkey, and as stated by the participants of the national debate, they are effective ways for the workers' unions to express their views and opinions without having to go through cumbersome procedures that would be the case if they applied to the Turkish Grand National Assembly. However, discussions carried out in individual meetings with the workers' and employers' organizations and the discussions in the national debate reveal that there are still missing elements in the provision of a perfectly functioning social dialogue mechanism in Turkey. Both workers' unions, and employers' associations stated that they only have a say on the lawmaking process after the draft law is prepared, and this makes it very difficult for them to negotiate and integrate their views in the formation of the new law. In effect, they can have little impact on the final law enacted. In fact, the Progressive Worker Unions Confederation (DİSK) stated that they have recently stopped taking part in many of these mechanisms because they could never make their voices heard. It is also an agreed fact that, the mechanisms explained above work differently from their original construct. For example, the Economic and Social Committee, even though it is a constitutional body, does not assemble as frequently as depicted.

### 3.3 Main Actors in Industrial Relations

In Turkey, the main actors in Industrial Relations, classified as Trade Unions and Employers' Associations are listed below.<sup>3</sup> This section also examines to what extent the central government and local authorities are involved in the Industrial Relations system.

#### 3.3.1 Trade Unions and Other Employee Representations

##### a) TÜRK-İŞ: Confederation of Turkish Trade Unions

TÜRK-İŞ, founded in 1952, is the first major confederation of trade unions. TÜRK-İŞ incorporates 33 member trade unions from various sectors such as agriculture, mining, energy, chemicals, trade, finance, transportation industry, defence industry, media, health and tourism. Currently, TÜRK-İŞ is the largest confederation of trade unions, with more than 2,2 million members (Table 2).

##### b) DİSK: Progressive Workers Union Confederation

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<sup>3</sup> The data for the trade unions is available from the Ministry of Social Security and the latest data is for 2009. See section 2.3 for the details of this data problem.

DİSK was founded in 1967, by five trade unions from mining, food, media, and rubber industries, of which three unions (from mining, media and rubber industries) separated from TÜRK-İŞ. In 2009, DİSK had 17 member trade unions and more than 426 thousand members (Table 2). DİSK represents the left-wing political views whereas TÜRK-İŞ has right-wing conservative beliefs.

#### c) HAK-İŞ: Confederation of Turkish Real Trade Unions

HAK-İŞ was founded in 1976, by trade unions from agriculture, steel industry, services and various public sectors. In 2009, HAK-İŞ incorporated 7 trade unions with 431 thousand members, and therefore it is the second largest confederation after TÜRK-İŞ (Table 2). HAK-İŞ represents political views closer to the government.

**Table 2. Trade Unions in the Private Sector, 2009**

	Number of Trade Unions	Number of Members
TÜRK-İŞ	33	2,239,341
DİSK	17	426,232
HAK-İŞ	7	441,917
Other	37	125,189
Total	94	3,232,679
Eligible Workers	-----	5,398,296

Source: Ministry of Labour and Social Security

#### d) MEMUR-SEN: Confederation of Civil Servants' Trade Unions

MEMUR-SEN, founded in 1992, represents nationalist political views. Currently, it embodies 11 trade unions from various branches (education, health, energy, transport, construction, services, etc.) of the public sector. With 515 thousands of members in 2009, MEMUR-SEN is the largest public workers' union in Turkey (Table 3).

#### e) TÜRKİYE KAMU-SEN: Turkish Confederation of Public Workers Trade Unions

TÜRKİYE KAMU-SEN, founded in 1992, also represents nationalist political views. There are 12 trade unions under TÜRKİYE KAMU-SEN, from education, health, construction, transport, energy, agriculture, media, and other services sectors. With 395 thousands of members, TÜRKİYE-KAMU SEN is the second largest public workers' union in Turkey (Table 3).

#### f) KESK: Confederation of Public Employees Trade Unions

Established in 1995, KESK represents leftist political views. There are 11 trade unions incorporated under KESK, from education, services, construction, media, agriculture, energy, and other branches of public sectors. With 232 thousands of members, KESK is the third largest public workers' union in Turkey (Table 3).

**Table 3. Trade Unions in the Public Sector, 2011**

	Number of Trade Unions	Number of Members
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MEMUR-SEN	11	515,378
KAMU-SEN	12	394,497
KESK	11	232,083
Other	64	53,144
Total	98	1,195,102
Eligible Civil Servants	-----	1,874,543

Source: Ministry of Labour and Social Security

### 3.3.2. Employers' Associations

#### a) TOBB: The Union of Chambers and Commodity Exchanges of Turkey

TOBB is the largest employers union in Turkey. Founded in 1952, TOBB embodies 365 chambers of commerce and industry, and commodity exchanges. These chambers and commodity exchanges have more than 1,2 million member companies in all sectors.

The duties and responsibilities of TOBB are regulated by The Union of Chambers and Commodity Exchanges of Turkey, Chambers and Commodity Exchanges Law (Law No 5174). The Law states that TOBB, chambers and commodity exchanges are professional organizations with public institutions' status. All companies in industry and trade sectors have to be a member of TOBB.

#### b) TİSK: Turkish Confederation of Employer Associations

TİSK is the major representative of employers in industrial relations system of Turkey. Membership of TİSK is not an obligation for employers; it is on a voluntary basis. Founded in 1962, TİSK has 22 member employer associations today, from agriculture, transportation, glass, cement, leather, food, health, pharmaceuticals, construction, chemicals, metals, oil products, sugar, textiles, clay, tourism, education, and public sectors.

#### c) TÜSİAD: Turkish Industry & Business Association

TÜSİAD, founded in 1971, is a voluntary non-governmental organization of employers. Currently there are 600 members and 3500 companies from all industry and service sectors associated with TÜSİAD. The members of TÜSİAD account for almost 50 percent of the total value added, 80 percent of total trade volume and 50 percent of registered employment in the private sector.

#### d) MÜSİAD: Independent Industrialists and Businessmen's Association

MÜSİAD was founded in 1990, as a voluntary non-governmental organization of employers. Today, there are 3300 members and 15000 companies of MÜSİAD, accounting for 15 percent of the gross national product and 13 percent of total exports. Members of MÜSİAD represent conservative political views that support national and local values.

#### e) TİM: Turkish Exporters Assembly

Turkish Exporters Assembly represents 60 exporters' unions operating in 26 sectors. The duties and responsibilities of TİM are regulated by The Law of Duties and Responsibilities of Turkish

Exporters Assembly and Exporters Unions (Law No 5910) which was enacted in 2009. According to the Law, exporters are obliged to be a member of the relevant exporters' union.

#### **f) TESK: Turkish Confederation of Tradesmen and Craftsmen**

The first unions of tradesmen and craftsmen were founded in the early years of the Turkish Republic, with the enactment of the Trades Associations and Trades Unions Law in 1949. With the implementation of the Law of the Craftsmen and Artisans in 1964 (amended in 2005), TESK was founded. There are 3109 occupational chambers organized under 82 unions of tradesmen and craftsmen chambers; and 13 occupational federations under TESK. These occupational federations include drivers, grocers and dealers, butchers, restaurant managers and workers, bakers, wood and forestry tradesmen and craftsmen, barbers, technicians, shoemakers, tailors, and metal craftsmen. Most of the confederation's members are micro enterprises with less than 10 employees. These enterprises are exempt from the current Employment Law. With its two million members, TESK is one of the most significant occupational organizations in Turkey, representing the most vulnerable community against economic crises.

#### **3.3.3. Central and Local Government**

Central government is one of the social partners in industrial relations and is a member of the Economic and Social Council. The duties of the Council are; to include all the social and economic partners in the process of economic and social policy making, and to monitor and adopt the studies carried out and the decisions taken by the Economic and Social Council of the European Union. The duties and responsibilities of the Economic and Social Council are regulated by the Law No 4641, which was enacted in 2001.

The Economic and Social Council was established in March 1995. The Council consists of the Prime Minister, the Deputy Prime Minister, Ministry of Finance, Ministry of Labour and Social Security, Ministry of Development, Ministry of Economy, Ministry of Agriculture, Ministry of Science, Industry and Technology, Ministry of Energy, Ministry of Customs and Trade, The Undersecretaries of these Ministries, the President of the Central Bank of Turkey, the President of TURKSTAT, the representatives of State Personnel Presidency, Higher Education Council, TOBB, TİSK, TÜRK-İŞ, HAK-İŞ, DİSK, TZOB, TESK, and the representatives of other social partners determined by the Prime Minister. The Council is supposed to meet every three months regularly, and sub-councils might be established from the representatives of the member institutions if necessary.

Another example for the social partner involvement in the central decision-making body is the Minimum Wage Setting Commission. According to Labour Code (no. 4857) Act 39, minimum wages are set by the Ministry of Labour and Social Security through the Minimum Wage Setting Commission. The commission consists of the representatives of Ministry of Labour and Social Security, Ministry of Development, Turkish Statistical Institute, Treasury, TÜRK-İŞ and TİSK. TÜRK-İŞ and TİSK are the only employee and employer representatives involved in the

commission, as they have the highest number of members. According to the Labour Code, minimum wages should be amended at least once in every two years by this commission.

The employment practices for job vacancies in the central and local government show specific patterns, largely dependent on the political environment. It may be argued that the power on the decision to fill job vacancies in the central and the local government are usually divided between the main and the opposition parties. As a mitigation mechanism to the clientelistic employment practices in the central government, opposition parties use local governments under their rule to recruit party members. It is also important to note the tendency of the local governments to employ subcontractor companies for their services instead of hiring new public servants. This practice has the motive of preventing trade union effects in local governments.

### 3.4 Collective Bargaining System

It is a well-known fact that the objective of the collective bargaining system is industrial peace. However, the main mechanism through which this objective can be achieved is the threat of conflict.<sup>4</sup> This is because rational action from both the employer and employee side can result in compromise from both sides only if there are credible threats of conflict from both sides. The tools through which employees' organizations can show a credible threat of power are defined as strike and lock-out in the literature.<sup>5 6</sup> This power, although their assertion is not preferred as it damages production, must be protected by law in order to maintain the bargaining power of the employees unions, who would otherwise be weak in collective bargaining. However, although Turkey enacted laws to guarantee collective bargaining, rights to strike and lockout are limited by laws or in practice.

The previous Collective Bargaining, Strike and Lock-out Law regulated the rights of the workers to strike in order to preserve or improve their working conditions. According to the Law, workers can strike only if there are conflicts not resolved during the process of collective bargaining. Strikes for other purposes (such as for political purposes) are prohibited by law.

The number of collective agreements has remained stable for the past decade (Table 4). There have been around 2,000 collective agreements, covering around 505,000 workers in Turkey in 2009.

**Table 4. Collective Agreements in Turkey**

	Number of		
	Agreements	Workplaces	Workers
<b>2000</b>	1,646	6,844	208,595
<b>2001</b>	4,454	14,211	775,478

<sup>4</sup> Chamberlain, 1948; Aaron, Bar-Niv and Morgenstern, 1997; Brassey et al. 1987

<sup>5</sup> See, for example, Chamberlain, 1948; Aaron, Bar-Niv and Morgestern, 1997; Brassey et al., 1987; Weiss, 2005, among others

<sup>6</sup> In particular, Weiss (2005, p.85) argues that "Collective bargaining would be nothing but collective begging" without the right to strike.



<b>2002</b>	1,773	7,453	255,059
<b>2003</b>	1,607	7,806	629,240
<b>2004</b>	1,482	7,922	325,386
<b>2005</b>	3,977	14,388	587,456
<b>2006</b>	1,704	5,456	304,392
<b>2007</b>	1,975	9,738	466,429
<b>2008</b>	1,704	9,623	262,786
<b>2009</b>	1,995	11,544	504,796

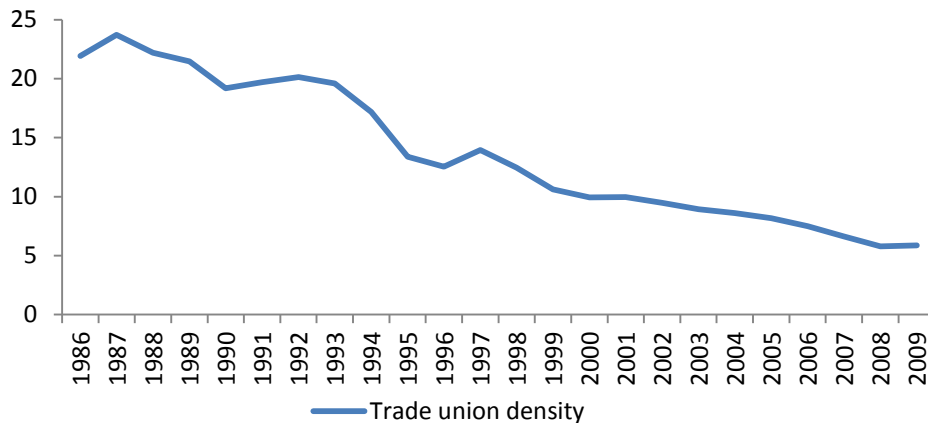
Source: Ministry of Labour and Social Security

The currently effective 1982 constitution did not give collective bargaining rights to public sector employees. These rights have been granted to the public sector only recently. In April 11, 2012, a new law (Law No 6289) has been enacted which granted public sector employees rights for collective bargaining. The law states that collective bargaining negotiations are to be made every two years between public sector employee confederations and the “public sector employers union”, which consists of the representatives of the Ministry of Labour and Social Security, Ministry of Development, Ministry of Finance, Ministry of Interior, Treasury and State Personnel Presidency. The law, which has not been implemented yet, does not provide rights to strike and lock-out for the public sector employees. As a result, in line with the theoretical literature, instead of improving the collective bargaining process, the new law is expected to deteriorate the balance in favour of the state.

In general, the private sector has the right to strike and lock-out, but there are still problems with implementation. For example, in 2012, Turkish Civil Aviation Workers Union (Hava-İş) and Turkish Airlines, the leading airline company in Turkey with 14 thousand employees, could not agree on the wage increase rate for 18 months. In the meantime the company lobbied the government to enact a law prohibiting the rights to strike and lock-out for the aviation sector workers on grounds that the sector has strategic importance. Hava-İş began a strike for a day in late May, resulting in the cancellation of around 120 flights, and in reaction Turkish Airlines laid off about 300 workers. The new law prohibiting strikes in the aviation industry was effective in the following two days and Turkish Airlines opened a lawsuit against the workers and Hava-İş, the Turkish Civil Aviation Workers Union. However, public opposition to such developments resulted in the cancellation of the law that prohibited the rights to strike and lock-out for the aviation sector workers.

Assessing the historical developments in employment relations, especially after the 1980 military intervention, the effect of the post-1980 legislative framework has been to reduce the number of trade union members over the years. As a result of the politicized trade union activities in the 1970s, the post-1980 legislation effectively reduced the strength of trade unions, making them ineffective in providing rights and benefits to their members. This process resulted in a decline in trade union density, calculated as the share of unionized workers in the total number of workers. Trade union density declined from 22% in 1986 to 5.9% in 2009 (Figure 2).

Figure 2. Trade union density in Turkey (% , 1986-2009)



Source: OECD Stats.

There is another aspect of the current industrial relations regulations that seriously hinder workers' position. Currently, there is a mismatch between the unionization data reported by the Ministry of Employment and Social Security and the Social Security Institution. This mismatch occurred as a result of the fact that the Ministry uses data that is not very accurate, whereas the Social Security Institution has digital records of each worker and therefore has more accurate data that gives significantly lower unionization rates.<sup>7</sup> There is currently a formal threshold (the union must have at least 10 percent of the entire workers in the sector as members) that define whether a union is entitled to make a collective agreement for its workers, and only a minority of the unions can make it through the threshold if data from the Social Security Institution is used. The collective agreements have traditionally been signed based on the data provided from the Ministry; but because the data is still in the process of change at the moment, no collective agreements were made since February 2012.

The laws and regulations for collective bargaining are in the process of change; but the changes have not been officially enacted yet. The new draft law calls for the reduction in the number of lines of businesses (sectors) from 28 to 20. This necessitates uniting the previously separate lines of business with different workers' organizations.

Furthermore, the draft law reduces the minimum age requirement to become a union member, and liberates some trade union activities, such as allowing becoming members of international employee or employer organizations, and establishing trade union TV or radio channels. Parts of the new law has already passed in the Turkish Grand National Assembly, and it is anticipated that the new law as a whole will become effective within the current legislative year. The new law is expected to solve the collective agreement problem explained above by eliminating the threshold of 10% for a limited period of time and then raising it to around 2 percent.

<sup>7</sup>The data from the Social Security Institution gives the unionization rate around 8 percent compared to around 60 percent according to the data from the Ministry.

If implemented, the new law is hoped to change the situation in favour of the trade unions by liberating them from the restrictive environment of the 1982 laws; but the negative perception towards trade unions is more difficult to change. In this respect, it is but inevitable that the social dialogue between the weak trade unions and the state would itself be weak.

After having outlined the industrial relations framework in Turkey that prevailed before, during and after the 2008 economic crisis, in the following section, a brief outline of the Turkish economic performance before and during the global crisis is given, along with explaining how the national, cross-sectoral and sectoral level industrial relations and social dialogue was effective in dealing with the crisis.

## IV. Crisis and Challenges of Social Dialogue

The effects of the global economic crisis on the Turkish economy differed from other countries in several aspects. Moreover, the magnitude of the crisis' impact varied between sectors, companies and the economic performance indicators on the economy at the national level. This section will assess the effects of the crisis on the economy, including the changes in the dynamics of the labour market, health and education sectors. Secondly, the challenges the crisis brought forward on national, cross/sectoral and company levels, and the examples of social dialogue on each level will be examined.

### 4.1. Economic and employment dimensions of the crisis

Turkey has been one of the countries that suffered from the global economic crisis most severely. In 2009, Turkish economy contracted by 4.7 percent, becoming the tenth economy in the world among the economies that contracted the most (Table 5). In the same year, GDP per capita decreased by 18 percent in current prices; from 10,438 USD in 2008 to 8,559 USD in 2009. The recovery, however, was more rapid than expected. In 2010, Turkish economy grew at a rate of 8.9 percent, which made Turkey the fifth fastest growing economy in the world. GDP per capita increased by 17 percent and reached 10,022 USD.

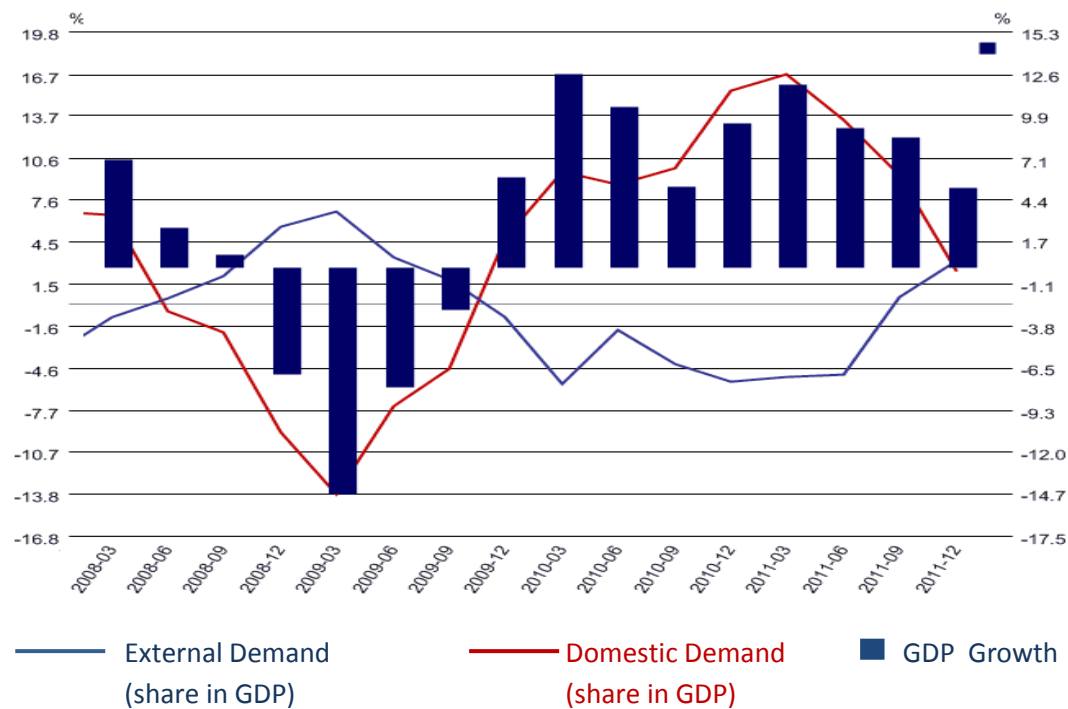
**Table 5. Top 10 economies that contracted in 2009 and grew most rapidly in 2010**

10 Economies that		10 Economies that Grew		
Finland	-8.3	Singapore	14.5	Source: The Economist, TEPAV
Russia	-7.9	Taiwan	10.8	
Hungary	-6.7	China	10.3	
Mexico	-6.5	Argentina	9.1	
Japan	-6.3	<b>Turkey</b>	<b>8.9</b>	
Denmark	-5.2	India	8.6	
Sweden	-5.1	Thailand	7.8	
Italy	-5.1	Brazil	7.5	
United Kingdom	-5	Malaysia	7.2	
<b>Turkey</b>	<b>-4.7</b>	Hong Kong	6.9	

Turkey's past experiences, particularly the 2001 financial crisis that resulted in comprehensive structural reforms in the banking sector, have been the main reason for the limited effects of the global crisis on the Turkish financial sector, and relatively fast recovery of the economy. Turkey's past experiences of economic crises enabled both workers and employers to take precautionary measures for the impact, respond quickly to the changes in the economic conditions. On the other hand, joint efforts made by the employer's and trade unions of the private sector contributed greatly to this fast recovery by bringing a spirit of solidarity in industrial relations, the most affected part of the economy. Both parties were ready for cooperation and unity, instead of creating an environment of panic and discord.

When the dynamics of the Turkish recovery are analyzed, it is seen that the engine of growth is the high domestic demand (Figure 3). Domestic demand and consumption increased significantly after the first quarter of 2009. However, due to the severe and prolonged effects of the crisis on Turkey's most important trade partner, the EU, Turkish exports did not increase back to the pre-crisis levels until the end of 2011. In addition, due to high domestic demand for imported goods, the current account deficit increased significantly during the recovery period, reaching 10 percent of the GDP in 2011.

**Figure 3. Sources of Turkish Growth**

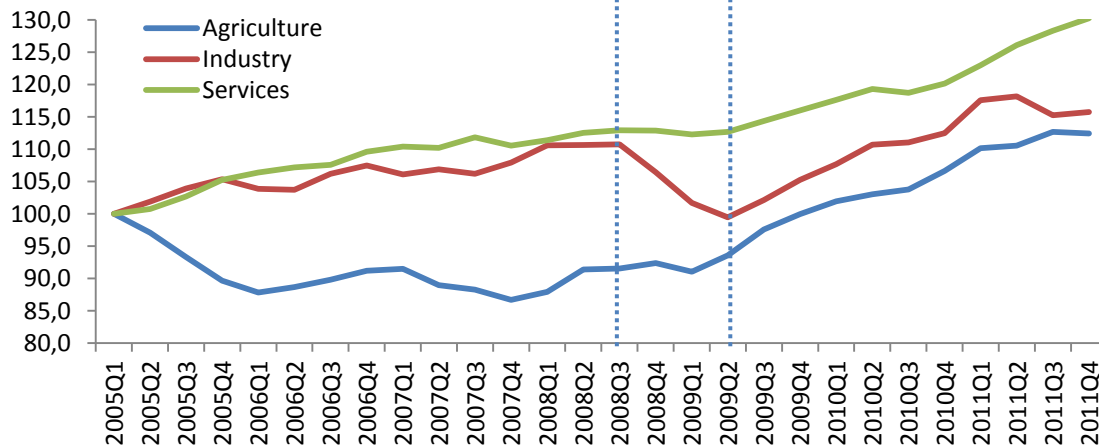


Source: Turkey Data Monitor

Although the recent global financial crisis affected all sectors in the economy, the manufacturing industry was affected most severely (Figure 4). Production in the manufacturing industry declined 30 percent between 2008Q2 and 2009Q1. The most adversely affected sub-sectors were automotive, textiles, electronics, machinery and durable goods manufacturing. Figure 3

shows that total employment in manufacturing industry decreased 10 percent during the crisis. The impact on service sectors was less apparent, with a slight decrease of 0.2 percent. In spite of the decrease in employment in the manufacturing and services sectors during the crisis, there was a surprising increase of 2 percent in agricultural employment. This increase remains to be a riddle among the economists, a possible explanation being that the people, who lost their jobs in the cities, might have migrated back to the rural areas and started working on their family land. Currently, all sectors seem to have recovered from the global financial crisis, and employment has increased back to the pre-crisis levels.

**Figure 4. Employment by sectors (quarterly index, 2005Q1=100, seasonally adjusted)**

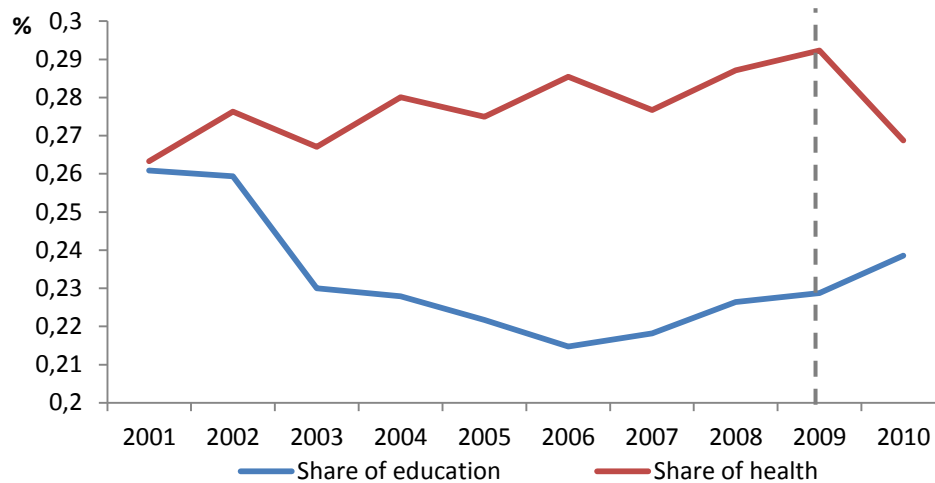


Source: TURKSTAT

Even though the crisis' impact on the service sector has not been as severe as in the manufacturing sector, serious repercussions have been observed in health and education sectors that are heavily supported by public spending. For instance, despite attempts to promote private health care, private health services industry was severely affected from the crisis for multiple reasons. First of all, patients tended to postpone their health expenditures for problems that do not need immediate attention, most likely in branches such as plastic surgeries or dermatology, as a response to the crisis. This tendency caused a significant decline in the demand for health services. Secondly, many companies terminated private group insurance contracts as a measure to cut expenses during the crisis; and left their employees only public health insurance to depend on. Because private hospital services are more expensive than public hospitals, the termination of private insurance contracts had a greater effect on the private sector hospitals as compared to their public sector counterparts. Also, policies to reduce the burden of health expenditures on public budget in the form of decreasing payments to private sector hospitals by the government decreased the share of patients, who prefer going to private hospitals for treatment. All of these effects were combined to cause a significant decline in the demand for private health services. As a result, many private hospitals found themselves in the verge of closing down. In order to prevent this and cut expenses, private hospitals started decreasing their number of employees.

In Turkey, a long-term trend in social spending has been to increase the share of health expenditures at the expense of education expenditures.<sup>8</sup> The economic crisis reversed this situation, as a result of the government's limitation of coverage for private hospital services, explained above. Figure 5 indicates a convergence of the shares of public spending on education and health, following the impact of the crisis.

**Figure 5. Share of education and share of health in total social spending**



Source: TURKSTAT

In the education sector, the most affected segments were the private schools and private tutoring institutions<sup>9</sup>, similar to the trends in the health sector. In 2008, there were 4,670 private schools and 4,262 private tutoring institutions in Turkey. Private schools were among the institutions that were affected by the crisis the latest, because contracts for the 2008-2009 educational year were already signed at the time the crisis hit in September 2008. However, it was estimated that there would be a significant decline in the private school enrolment ratios in the following education year. Similarly, the 2001 financial crisis in Turkey had caused a decline of 16 percent in the private school enrolment ratios. When the crisis hit in late 2008 and early 2009, the government estimated that, if about 16 percent of the students who were in private schools enrolled in public schools in the following year, the cost to the government would be at least 2,000 classrooms, and accompanying schools and teachers as well. There were attempts to initiate an incentive scheme that would provide VAT exemption to private schools for the 2009-2010 educational year, but such attempts by the Ministry of National Education were rejected due to budget concerns. Most private schools did not raise fees in the year 2009-2010 and could mitigate the demand decline. However, the number of private tutoring institutions declined

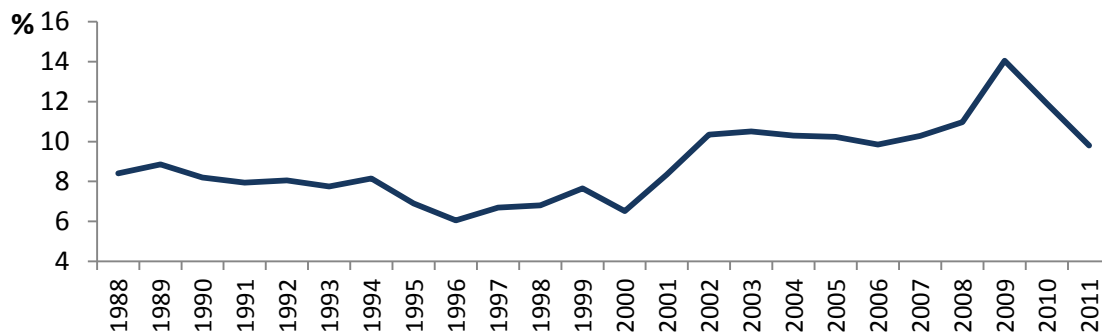
<sup>8</sup> TEPAV, 2009

<sup>9</sup> A structure in which the vast majority of the students both in primary and secondary education enrolled in private tutoring institutions has emerged in Turkey, due to the requirement of succeeding in national high school and university entrance exams.

from 4,262 in 2008 to 4,193 in 2009 and further declined to 4,099 in 2010. As a result of this decrease, 1,707 teachers in private tutoring institutions were left without jobs.<sup>10</sup>

Labour market in Turkey has also been affected significantly from the global crisis. The unemployment rate, which was already around 10 percent before the crisis, reached 14.9 percent in the first half of 2009 (Figure 6). The number of the unemployed increased to 3.5 million people. In 2010, despite the fast recovery, it decreased only to 11.9 percent, with 3 million people remaining unemployed.

**Figure 6. Unemployment rate in Turkey, 1988-2011**



Source: TURKSTAT

The persistence of high unemployment for many years indicates the existence of a structural unemployment problem in Turkey. It is believed that this persistence stems from the mismatch of supply and demand in the labour market. In the recent years, the Turkish economy has been going through a structural transformation. As a transition has been observed from labour-intensive to more capital-intensive industries, the labour force profile demanded by firms has also changed considerably. However, this changing demand could not be addressed easily: the limitations in the capacity to create new jobs, combined with the inability to keep up with the changes in demand for new skills, have created a structural unemployment problem in the labour market.

This structural unemployment problem can also be seen in the employment statistics. When the composition of unemployed people is analyzed (Table 6), it is observed that the share of young people among the unemployed has been decreasing over time. In contrast, the share of middle aged people (35-54) has been increasing among the unemployed. During the global crisis, the number of unemployed people in Turkey increased 1.5 times compared to 2007. In the same period, the number of unemployed increased 1.2 times for the age group 15-19, whereas the increase for the age group (35-54) was 1.46 times. These numbers indicate that middle aged people were affected more from the crisis. This is related to the fact that the skills that employers demand have changed along with the transformation of the economy, and middle aged workers encounter more difficulties acquiring new skills compared to younger people.

<sup>10</sup> Sources: Turkish Ministry of National Education, National Education Statistics, 2008-2011

**Table 6. Unemployment by age groups\***

	<u>15-19</u>		<u>20-24</u>		<u>25-34</u>		<u>35-54</u>		<u>55+</u>		<b>Total</b>
	#	%	#	%	#	%	#	%	#	%	#
<b>2011</b>	258	<b>10%</b>	574	<b>22%</b>	868	<b>33%</b>	816	<b>31%</b>	98	<b>4%</b>	2615
<b>2010</b>	313	<b>10%</b>	648	<b>21%</b>	1012	<b>33%</b>	966	<b>32%</b>	108	<b>4%</b>	3046
<b>2009</b>	401	<b>12%</b>	725	<b>21%</b>	1184	<b>34%</b>	1054	<b>30%</b>	107	<b>3%</b>	3471
<b>2008</b>	330	<b>13%</b>	567	<b>22%</b>	874	<b>33%</b>	762	<b>29%</b>	79	<b>3%</b>	2612
<b>2005</b>	301	<b>12%</b>	609	<b>24%</b>	899	<b>36%</b>	657	<b>26%</b>	53	<b>2%</b>	2519
<b>2000</b>	247	<b>16%</b>	458	<b>31%</b>	439	<b>29%</b>	318	<b>21%</b>	35	<b>2%</b>	1497
<b>1996</b>	321	<b>21%</b>	499	<b>33%</b>	406	<b>27%</b>	247	<b>16%</b>	29	<b>2%</b>	1502

\*#: number of unemployed (in thousands), %: share of age group among the unemployed

Source: TURKSTAT

Analysis of the composition of the unemployed with respect to education levels shows that the least educated group has the highest share among the unemployed. 57 percent of the unemployed people have primary education or below. In the same group, the share of the unemployed people increases along with the age. Therefore, it is possible to conclude that the most disadvantaged group in terms of employability is the middle aged and less educated. This group has therefore been the most affected group during the economic crisis in 2008-2009.

**Table 7. Composition of the unemployed, by education and age, 2011**

	<b>15-24</b>	<b>25-34</b>	<b>35+</b>	<b>All Ages</b>
<b>Primary education or below</b>	16%	17%	24%	<b>57%</b>
<b>Secondary education</b>	11%	9%	6%	<b>25%</b>
<b>Higher education</b>	7%	9%	3%	<b>18%</b>

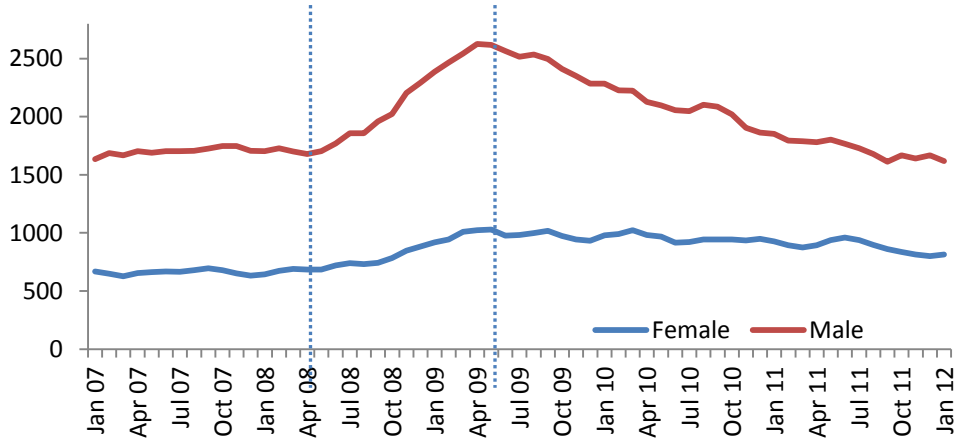
Source: TURKSTAT

When the effects of the crisis on female and male employment are analyzed, it is observed that female employment has been affected less from the crisis. As shown in Figure 7, between April 2008 and May 2009, when unemployment rose sharply in Turkey, the number of unemployed increased by 50 percent for females, and 56 percent for males. However, considering that the female labour force participation rates have been only 24.5 and 26 percent in 2008 and 2009 respectively, sharp decreases in already limited female employment is not expected. Another reason for the limited decrease in female employment and the increase in female labour force participation rate is the decrease in household income during the crisis. Due to the decrease in GDP per capita and the sharp increase in male unemployment during the crisis, the need for women to contribute to the household income increased, in order to be able to maintain subsistence. However, it should be noted that despite the decrease in the number of



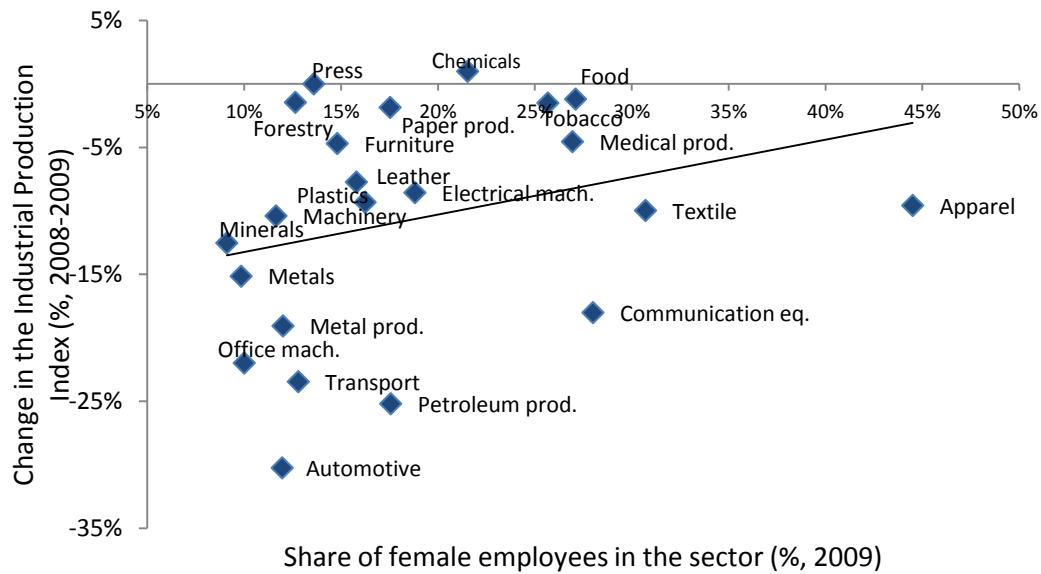
unemployed males back to pre-crisis levels by the end of 2010, the number of unemployed females has not decreased significantly.

**Figure 7. Number of unemployed (in thousands), female and male, 2007-2012, seasonally adjusted**



Source: TURKSTAT

**Figure 8. Change in the Industrial Production Index vs. Share of Female Employees for the sub-sectors of manufacturing industry**



Source: TURKSTAT, TEPAV

Analysis of sectoral breakdown with respect to female employment shows that manufacturing industry sub-sectors with higher share of female employees contracted less during the crisis. Figure 8 indicates that manufacturing industry subsectors such as textiles, apparel, food and medical products were affected less by the crisis compared to other sub-sectors. These subsectors have higher share of female employees, whereas sub-sectors with low shares of

female employment such as automotive, transport, metals and petroleum products experienced greater decreases in the Industrial Production Index. These findings shed light on another reason for the limited change in female unemployment during the crisis, compared to male unemployment. The magnitude of the impact from the crisis on sectors has varied, with sectors that had higher female employment by nature suffering less from the crisis.

## **4.2. Social dialogue and IR in the times of crisis**

The effects of the 2008 global economic crisis in Turkey varied between different levels of industrial relations as well. Accordingly, responses to the crisis were observed to be different in national, sectoral and company levels. While on national level, the stance of the government, policymakers and unions were important in the determination of the type of policy and private sector responses to the crisis, on sectoral level, the differences in the magnitude of the impact each sector faced from the crisis were more influential in the responses. On the company level, however, individual experiences, cumulative knowledge from past crises and different styles of management mattered in how each company responded to the global economic crisis.

Due to the strong financial sector of Turkey as a result of the banking reforms in the aftermath of the 2001 financial crisis, the effects of the 2008 global economic crisis on Turkey have surfaced later than other countries. Unlike the 2008 global economic crisis, the 2001 financial crisis of Turkey was followed by comprehensive measures aiming to increase fiscal strength. The fiscal programme to be implemented was prepared in cooperation with the IMF, and consisted of strict contractionary fiscal policies on top of monetary policies. The 2008 economic crisis affected Turkey through its commercial and financial ties with the rest of the world and the policy measures taken after 2001 helped Turkey be relatively more resistant and strong against the new crisis. Combined with the fact that the banking sector remained intact, the government's perception towards the crisis was that it would not cause serious harm to the economy. That is why, rather than altering the legislative framework, temporary policies and incentive packages were adopted to stimulate spending and prevent an increase in unemployment. In this respect, the Labour Code No. 4857, the Trade Union Law for Public Servants (no. 4688), the Trade Unions Act No. 2821 and The Collective Labour Agreement, Strike and Lockout Act No. 2822 are still in place, although the laws No. 2821 and 2822 will become ineffective in 2012. The following subsection will outline the major fiscal instruments and temporary measures taken to alleviate the effects of the crisis.

### **4.2.1. Measures taken by the government**

The government attempted to mitigate the effects of the crisis, not by a comprehensive package, but through various regional and national incentive packages:

- The first package related to labour markets was introduced in October 2008, which took the following precautions:<sup>11</sup>

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<sup>11</sup> Yeldan, 2010.

1. 5% reduction in the social security premiums with further reductions for women and young people,
  2. 11% increase in unemployment benefits,
  3. Increase in incentives paid for the injured and the disabled from the Treasury,
  4. Repeal of the administrative responsibilities for the private enterprises, such as the establishment of a gym and infirmary and the recruitment of disabled personnel.
- In January 2009, the government enacted a law in order to restructure the debt records for bad cheques, protested bills, credit cards and other credits. The law also stated that once these debts are paid, the debt history will be deleted from official records so that banks would not consider debts before payment in deciding upon offering new credit.
  - In February 2009, effective only for the year 2009, *short-time work allowances*<sup>12</sup> for workers were increased by 50% and were given for 6 months instead of 3 months, in order to prevent the firms from performing job layouts.
  - In March 2009, a temporary tax reduction package for private consumption was introduced to increase domestic consumption. This package was effective between March and June 2009, especially stimulating the demand in consumer durables and automotive sectors. Moreover, aimed to be effective for the same period, the scope of VAT and special consumption tax reductions were broadened<sup>13</sup>.
  - In June 2009, the government announced an incentive program that introduced corporate tax reductions to investments that were tied to incentive certificates. With this incentive program, Turkey was divided into four regions subject to different degrees of incentives with respect to the region's level of development<sup>14</sup>. The incentive package was comprised of corporate tax reductions, credit supports and exemptions on VAT and tariff payments. Also, the social security premiums of any employee recruited after April 2009 was covered by the unemployment benefits fund.
  - Again in June 2009, a legislation loosening the restrictions on the employment of contract labour was passed. With this legislation, temporary employment contracts and employee leasing services were allowed, and the sector restrictions on contract labour were lifted.
  - The government increased spending for some investments, particularly on investment projects that would crowd-in private sector investments. For example, in July 2009, 646 million USD was invested to the project "Work Programme for the Benefit of the Society", which temporarily recruited workers as part of projects to rebuild schools, hospitals etc.

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<sup>12</sup> Short-time work allowance: Payment made by the state to an employee that is suspended from production for a short time as a consequence of an economic crisis or a technological change,

<sup>13</sup> Karakurt, pg 188.

<sup>14</sup> Prime Ministry of the Republic of Turkey, 2009.

<http://milarsiv.milliyet.com.tr/BasbakanSunum/BasbakanSunum.aspx?sayfa=1>

- In July 2009, a law was enacted in order to restructure payments for credit card debts. The law revoked interest payments if total payment is made with cash and offered reduced rates if payment is made in instalments.
- Active labour market policies were implemented.

**Table 8: Stimulus Programs for Employment Market and Total Cost**

	Estimated Fiscal Expenditures (Million TL)			
	2008	2009	2010 (estimated)	2008-2010
Reduction of employers' social security contributions, remaining amount to be paid by the Treasury (part of the employment stimulus package in October 2008)	17	3.726	4.327	8.070
Expansion of activities on vocational training of İŞKUR (retraining, internship training etc.)		152	343	495
Reduction of social security contributions for young and female workers (to be paid by the Unemployment Insurance Fund, from May 2008)	16	66	137	219
Recalculation of unemployment insurance payment in terms of gross instead of net amount (11% increase)	40	119	87	246
Increase of short-term working allowances by 50% (Increase of related duration from 3 months to 6 months)		162	106	268
Implementation of social work programs		78	151	229
<b>Total cost of the measures for employment</b>	<b>73</b>	<b>4303</b>	<b>5000</b>	<b>9527</b>
GDP Share (%)	0.01	0.45	0.49	..
<b>Total with other measures</b>	<b>9365</b>	<b>32612</b>	<b>22889</b>	<b>64866</b>
<b>Total share of the stimulation package in GDP (%)</b>	<b>0.99</b>	<b>3.42</b>	<b>2.23</b>	<b>..</b>
Estimated GDP (sum of last four quarters in 2010)	950000.1	952635.0	1025500.0	..

Source: Yeldan, 2010.

The responses on each level of industrial relations to the 2008 global economic crisis and the result of the crisis responses in the form of a quick recovery have shown that social dialogue in times of crisis is of vital importance for the Turkish economy. The strength of dialogue in different levels of industrial relations determines the scope of loss for companies, sectors and the economy as a whole. The sections that follow examine and provide examples of the social dialogue that took place during the crisis period. Three levels of industrial relations are specified in examining social dialogue: National level, cross/sectoral level and sector/company level.

#### 4.2.2 Social dialogue on national level

As shown in section 4.1, Turkey was able to recover from the crisis successfully thanks to its high domestic demand. During the crisis, remarkable efforts were made by the social partners of the industrial relations system. These efforts helped increase the domestic demand, and as consumption increased, the recovery process gained momentum.

The most active social dialogue mechanism during the crisis period has been The Coordination Council for the Improvement of Investment Environment (YOIKK)'s Technical Committee for Employment. The committee convened 7 times in 2009 and 3 times in 2010. Tripartite Advisory Board has convened every January, May and September, while on the other hand Economic and Social Council met once in every year during the crisis period, chaired by the Prime Minister. Although some of these mechanisms could only involve a limited number of representatives of social dialogue, activities of these bodies allowed social dialogue stakeholders to initiate the formation of a more beneficial labour market for employers, due to the reduction of employers' social security contributions, with wider social safety nets such as short-time work allowances and unemployment benefits, detailed in the previous section. Incentive packages and regulatory responses to the crisis have been brought to the stakeholders' attention via aforementioned social dialogue mechanisms.

Aside from official channels of social dialogue, one of the most active organizations in mitigation efforts to the global crisis has been the Union of Chambers and Commodity Exchanges of Turkey (TOBB). The organization worked closely with the government in designing economic policies that would lead to a fast economic recovery, establishing dialogue between the public and private sector. Moreover, TOBB became an important actor in expressing the difficulties faced by the private sector during the crisis to the government.

Aside from economic policy design and public-private sector dialogue, TOBB also created campaigns to mobilize individuals to get together in a collective effort, with the goal of increasing the effectiveness of responses to the crisis. In the leadership of TOBB, a group of social partners called "Producing Turkey Platform", with the participation of TÜRK İŞ, HAK İŞ, TESK, TİSK, KAMU SEN, TİM, TÜSİAD and MÜSİAD<sup>15</sup> came together to influence the public opinion via a national campaign with the theme of increasing consumption. The campaign was supported by the government, the ruling and the opposition parties. At the local level, it was also supported by the local authorities and provincial mayors.

In order to develop a campaign that would address all parties' concerns, the members of the Producing Turkey Platform undertook a meticulous process of design. In order to initiate the design process, firstly the main problem of the Turkish economy during the crisis was identified as low levels of domestic demand. After consulting the employer's unions, trade unions, media, consumer organizations and sector representatives; the design process, which had continued

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<sup>15</sup> The campaign was also supported by the social partners TÜRKONFED, AGSD, AMPD, DEİK, TİKAD, BMD, TÜMSİAD, BAKTAD, MOBİSAD, OSBÜK, PARSİAD, TÜFOD, MOSDER, OMSİAD, TÜRES.

from October 2008 to March 2009, was completed. The campaign called “There is a Remedy for the Crisis” was launched throughout Turkey.

The execution plan included advertisements on TV and radio, posters and flyers used in collaboration with municipalities. Meetings with focus groups were carried out, including the representatives of the industrial sectors (automotive, textiles, electronics, durable goods, etc) most adversely affected from the crisis, the representatives of banks and financial institutions, journalists, economists and universities. Designed to continue for 5 weeks, the campaign had 5 separate themes for each week, targeting different stakeholders (Figure 9). These themes, also used for poster titles are listed below:

Week 1: Don’t Lock Yourself In, Go Out to Shop

Week 2: No One Shall Lose His/Her Job

Week 3: Trust and Stability: We All Need It

Week 4: Believe in Your Power

Week 5: Production – Employment – Consumption: All for One, One for All

Figure 9. Each Week’s Posters for the “There is a Remedy for the Crisis” Campaign



The main goal of the campaign was to stimulate domestic demand by encouraging households to expedite their postponed spending. In addition, it was aimed to encourage firms to eliminate their stocks by selling more, and provide more liquidity for the economy. For this reason, public was informed that production, consumption and employment are all linked in an economy. It was emphasized that the remedy to recover from the crisis was to increase consumption to support the industry. Therefore, people were asked to increase their spending and decrease their savings temporarily, for the sake of keeping Turkish economy on track.

The initial response to the crisis was received from workers. As the most vulnerable community, the workers objected the first week’s theme, indicating that they had no money to spend. Trade unions that were consulted in the process of campaign design were pressured by their members, and as a result, the slogan “No One Shall Lose His/Her Job” was moved to the second

week to alleviate the protests. Therefore, the campaign's aim of raising awareness on the link of production, employment and consumption was made more effective by these worker protests. The flexibility in campaign strategy also points out to the sensitivity of the Producing Turkey Platform to the responses received from the public, regarding the campaign.

Although the campaign was designed primarily to raise the awareness of consumers in order to stimulate domestic demand, the private sector also became more aware of their role in facilitating the increase of consumption. Several firms designed tools and discount schemes to promote shopping. Many shops provided the consumers with more advantageous instalment plans. Shopping malls distributed free gifts and bonuses to their customers that spent more than a certain amount of money. As an example of spending schemes practiced during this period, in a shopping mall in Ankara, vouchers worth 50 TL (around 21 €) were delivered to the first 100 customers each day between July and August 2009.

The benefits of "There is a Remedy for the Crisis" campaign were not limited to retailers and consumers. A local automobile manufacturer, facing the risk of shutting down one of its factories, experienced a boom in demand following the weeks of the campaign, abandoning its plans of closing down the factory. As a concrete result of the campaign, several hundred workers were saved from becoming unemployed.

Following the "There is a Remedy for the Crisis" campaign, another campaign with the same goal of increasing domestic demand was launched by Turkish Industry Council on Advertisement, with the name of "Buy, Sell and Revive the Economy"<sup>16</sup>. Video clips of the campaign were widely broadcasted on TV. The campaign was also supported by the Deputy Prime Minister Responsible for the Economy, Mr. Ali Babacan.

Another response to the crisis on a national level was the increase in the capital of Credit Guarantee Fund (CGF). An additional 1 billion TL was transferred to the Fund by its partners<sup>17</sup>, in order to increase the producers' access to finance. Moreover, the share of TOBB in the fund was increased, as a part of TOBB's contributions to crisis mitigation efforts.

The social dialogue on the national level during the 2008 global economic crisis was particularly effective because of the unity and solidarity exercised by all private sector organizations, trade unions and the support from the government. The increase in the Consumer Confidence Index during and right after the "There is a Remedy for the Crisis" indicate the importance of the cooperation of different interest groups in the case of a crisis in the eyes of the public (Figure 10).

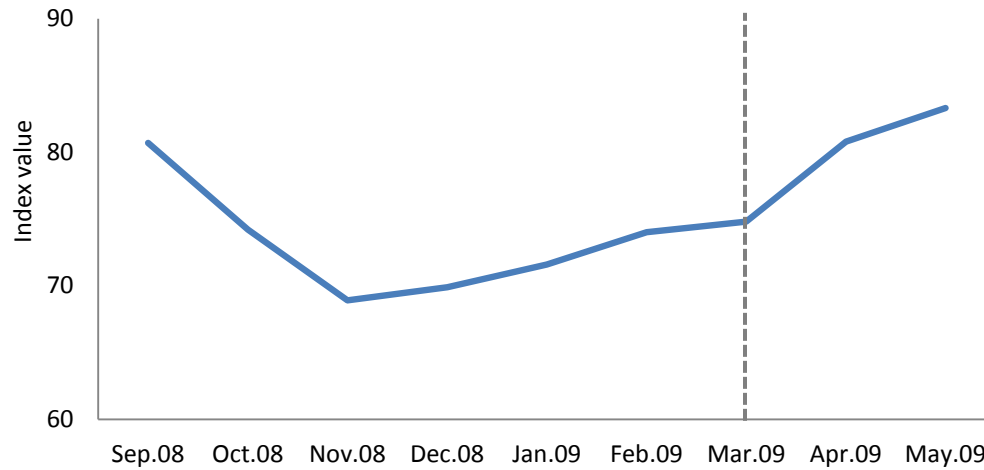
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<sup>16</sup> "Alın Verin, Ekonomiye Can Verin" campaign, <http://www.hurriyet.com.tr/ekonomi/12355087.asp>

<sup>17</sup> The partners of CGF include several commercial banks and public institutions, including TOBB, KOSGEB, TESK, TOSYÖV, MEKSA, Eximbank and 18 other commercial banks. <http://www.kgf.com.tr/eng/2ortaklar.htm>



**Figure 10. Consumer Confidence Index (October 2008 – May 2009)**



Source: Central Bank of Turkey Database

#### **4.2.3 Social dialogue on cross/sectoral level**

The magnitude of the impact of the 2008 global economic crisis varied across the different sectors of the economy. The manufacturing sector in general, and the sectors more dependent on foreign markets were the sectors that were affected the most from the crisis. Therefore, the sectoral responses to the crisis changed parallel to the magnitude of the crisis' impact on that sector.

One of the most significant social dialogue responses to the crisis on sectoral level took place in the steel industry. Following the repercussions of the global economic crisis in 2008, the financial difficulties faced by the steel companies were confronted by the steelworkers' union, Çelik-İş Sendikası<sup>18</sup>. Considering the severe conditions prevailing, collective bargaining in the steel industry in 2009 resulted in a voluntary 35% reduction in wages. This decision was practiced for 16 months, between 1 May 2009 and 31 August 2010<sup>19</sup>. From then on steel workers' wage losses were compensated without any reflection on their welfare benefits. The reduction in wages provided a very favourable alternative to the 2,000 workers in the industry, for if it was not for the wage reductions these workers would have lost their jobs. Workers at all levels were affected equally from the reduction. This practice is said to have prevented particularly the bankruptcy of the steel company İSDEMİR, and the shutdown of the company's factories in Iskenderun.

Another example of the sector-specific practices aiming at mitigating the impact of the crisis was implemented by TOBB. As the second stage of the "There is a Remedy for the Crisis" campaign, TOBB planned to have separate schemes targeting 5 sectors: construction, automotive,

<sup>18</sup> <http://www.celik-is.org/>

<sup>19</sup> <http://www.iskenderun.org/haberdetails.isk?ID=11687>



consumer durables, textile and agriculture. The notion that prioritizing labour-intensive sectors as targets in crisis mitigation efforts due to their direct effects on unemployment had a significant influence on the sector selection criteria for these schemes.

The first sector targeted for campaign was the construction sector. Regarding this sector, TOBB started “Renovate Your Home” scheme in August 2009. The scheme was organized in collaboration with Halkbank and supplier firms of building materials. Under the campaign, credits with low interest rates were supplied to households for the renovation of their houses. Towards the end of the scheme, with the fast increase in domestic demand, Turkish economy started to recover. With the effects of the crisis being alleviated, implementation of schemes for the other 4 sectors was suspended.

Of all the sectors in the Turkish economy, the global crisis hit the manufacturing industry the most. Employment losses were also more significant in the manufacturing industry, compared to services. To compensate for these losses, projects to increase employment were introduced in the manufacturing industry. One example of these projects were Skills’10 Project, which was designed by TOBB and implemented as a Public-Private Partnership project in collaboration with the Ministry of National Education, the Ministry of Labour and Social Security, and TOBB University of Economics and Technology.

Skills’10 Project was basically designed to reduce structural unemployment in Turkey. During the crisis, it was observed that the most vulnerable group to the recessions was the least educated people, due to the mismatch of their skills with employers’ expectations. Therefore, this project targeted to train the lowest skilled, and aimed to make these people acquire basic skills so as to be employed in the manufacturing industry. The project was launched in the second half of 2009, and the training programs for the unemployed started in 2011, following the completion of the Labour Market Needs Analysis. It was initiated by the Turkish Ministry of Employment and Social Security, the Turkish Ministry of National Education, the Union of Chambers and Commodity Exchanges of Turkey (TOBB) and the TOBB University of Economics and Technology. Unemployed people were given training for six months: theoretical training in the vocational high schools and on-the-job training. The on-the-job trainings were provided by member companies of TOBB. Financial incentives (social security premium exemption) were provided for companies who participated in the project, and who provided employment for the trainees. So far, thirty eight thousand people have been trained and twenty thousand of the trainees have been permanently employed following the completion of their trainings. In the following months, the project will be expanded to service sectors, where a higher number of participants are expected. The project became a unique example of public-private-university partnership, providing vocational education to 200,000 unemployed each year.

A major reason why the projects were successful in efficiently alleviating the demand-side and employment effects of the crisis was that the Turkish banking sector remained intact in the crisis, as mentioned in previous sections. The restructuring as well as the cumulative knowledge obtained in a number of crises in the 1990s and 2001 helped the Turkish government and the

private sector to be able to identify and alleviate the deficiencies during the 2008-2009 crisis.

Although the manufacturing sector came to the forefront of the crisis as the most affected sector, certain areas of the services sector also experienced severe losses. As an example, private healthcare sector was deeply hit by the 2008 global economic crisis. Healthcare is commonly thought to be a sector that is immune to crises, due to its consideration as a vital, non-replaceable service. However, private healthcare differs in that a great portion of health problems treated in private hospitals is postponed until these health problems reach a life-threatening level. Health problems such as meniscus or nose surgery are commonly neglected during the times of crisis. Therefore, neglecting the treatment of non-life-threatening health problems result in a substantial decrease in the demand for private healthcare services.

Not only did the decrease in the demand for treatment, but also for private health insurance put the sector in a vulnerable position during the times of crisis, as noted in Section 4.1. During the interviews with private hospital managers, it was stated that the number of people with private health insurance decreased quickly, as the crisis became more prolonged and deepened. Moreover, the number of group insurances, provided by employers, was also subject to decrease. Additionally, the public authorities covering the cost of healthcare for workers with public health insurance became more reluctant to compensate for the hospitals' expenditures; as the fiscal budget was tightened<sup>20</sup>. However, instead of a collective response within the private healthcare sector, firms developed individual strategies to cope with the effects of the 2008 global economic crisis.

In conclusion, the effects and strengths of social dialogue between different sectors and stakeholders varied greatly in Turkish economy. While the manufacturing sector, as the sector that took the hardest blow, engaged in social dialogue and developed collective responses; some areas of the services sector lacked similar types of collaboration. The difference of responses between sectors point out to the spontaneous nature of crisis mitigation efforts, rather than a systematic approach.

#### **4.2.4 Social dialogue on company level**

During the global crisis, important measures have been taken by companies individually as well. The company-level responses indicate a cumulative knowledge from past crises Turkey endured over the last 20 years. The 2001 crisis strengthened the financial sector as reforms were implemented in the banking sector. Moreover, surviving the 2001 crisis provided the public with more confidence in dealing with future crises. Business managers were able to develop personal strategies for the times of crisis. As a result, Turkey was more ready than many developed and developing countries for a global economic crisis in 2008.

A company-level response example from the manufacturing industry was the decision taken by Koç Holding during the crisis. As the Turkish automotive industry was hit badly due to the

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<sup>20</sup> According to TURKSTAT, share of health services in total social spending decreased from 28.9 percent in 2008 to 27 percent in 2010. (For more information, see Section 4.2.1)

recession, Ford Otosan, the joint venture of Koç Holding and Ford Motor Company, decided to shift 410 voluntary employees to Arçelik-LG air conditioner factory, which is another joint venture of Koç Holding with LG Electronics. The employees volunteered to work in another factory in order to stay employed and avert decreases in their income. Their employment and social security status were not affected from the change.

Another example of crisis measures took place in the private healthcare sector. Most of the private hospitals, in order to cope with the crisis, reduced the number of employees. Some hospitals delayed the payment of the salaries to keep up their profits. On the other hand, a private hospital, MESA, demonstrated a different approach to dealing with the crisis. MESA managed to survive the crisis without obtaining loans in order to pay wages, and closed 2009 with a higher profit rate than 2008. Close dialogue with workers and simple cost-saving measures played the greatest part in MESA's success during the crisis.

MESA's approach involved establishing a worst-case scenario at the beginning of the crisis, regarding the next period. The hospital administration set certain targets regarding operating costs in order to survive the crisis with minimum damage. A 30% decrease in demand was assumed and reflected on the targets for each budget item.

As the second stage of crisis management, in October 2008, a meeting with the hospital staff was organized. At this meeting, the staff was assured that there would be no dismissal as long as everybody contributed to achieving the targets set for the next year's budget. Medical staff accepted not receiving their yearly raise at the end of 2008, while the shareholders accepted to receive a lower rate of dividends. In return, the administration guaranteed that no additional financing would be requested from the shareholders during the crisis. At the meeting, a Cost-Control Committee was formed, with the aim of saving 1 million TL in the next year.

Simple cost-saving measures were implemented in MESA during the 2008-2009 crisis period. While seemingly marginal, such measures managed to save 1.2 million TL at the end of 2009. The full cooperation of the hospital staff in implementing these measures was required in order to save significant amounts. Some of these simple measures included using 3 instead of 4 light bulbs in lighting armatures of the hospital, switching off the air conditioners every day for only 15 minutes, decreasing the size of certain forms in order to save paper and decreasing the use of elevators by hospital staff where possible. MESA received full cooperation of the hospital staff in implementing these measures, as a result of the close dialogue with the hospital staff maintained by the administration.

Company level responses to the crisis and their success demonstrate the importance of the initiative taken by the companies' administration. Sensitivity towards the needs of workers during the times of crisis earns the loyalty of the workers, as well as uniting the whole human resources in a company under a common goal. The 2008 global economic crisis presented several examples, pointing out to the fact that companies that manage to bring together their

staff under one goal, and seeking solutions other than dismissal of staff, survived the crisis with less damage.

## **V. Impact of Social Dialogue and Policy Responses**

### **5.1. Changes in collective bargaining and wage flexibility**

As elaborated in section 3.4, the preconditions for a trade union in Turkey are defined in the article 12 of Law No. 2822 for Collective Bargaining, Strikes and Lock-outs. These preconditions for trade unions are;

- Trade unions must have 10% of the workers in the related line of business as members in order to qualify for collective bargaining
- If collective bargaining process targets certain businesses, more than half of the workers of the businesses in question must be a member of the aforementioned trade union

Statistics regarding the ratio of workers in the related line of business for each trade union has not been announced by the Ministry of Labour and Social Security since 2009. As a result, trade unions that had members less than 10% of workers in a line of business remains out of the collective bargaining process. This change in the collective bargaining process in Turkey is identified to be a major bottleneck for social dialogue, particularly by trade unions.

On the other hand, collective bargaining has been carried out in case of public sector employees in the years following 2009. Nevertheless, the prohibition of the right to strike for public sector employees has caused results that are disadvantageous to the public sector employees. In the previous collective bargaining process, the government and the unions could not agree on the rate of wage increase for public servants; and although KESK, Türkiye Kamu-Sen and two other unions began a strike in May 2012, it was ineffective in raising the rate of wage increase. However, it must be noted that the public sector employees are much less affected from the crisis as they have job security. Although wage increases have been below expectations and caused dissatisfaction, no public sector employee was laid off during or after the crisis. In contrast, private sector employees have been in threat of job loss and even lawsuits as a result of collective action.

Although the lack of trade union member statistics form a bottleneck for social dialogue in Turkey, several other social dialogue mechanisms have been actively used in Turkey during the global crisis. Particularly the meetings of Tripartite Advisory Board, detailed in section 3.2, carried out studies on the impact of the crisis on employment. The social dialogue stakeholders with the highest number of members were able to present their policy suggestions to the government during these meetings. Aside from the efforts of Tripartite Advisory Board, the meetings of Economic and Social Council, as well as the studies carried out by the Coordination

Council for the Improvement of Investment Environment (YOIKK)'s Technical Committee for Employment ensured the continuation of social dialogue during the crisis.

In terms of wage flexibility, the impact of the global crisis pushed some of the trade unions<sup>21</sup> to voluntarily accept more flexible wages during the crisis period in Turkey. However, the long-term changes in legislation and implementation have been in favour of employers and restrictive for the employees. Despite this general trend after the beginning of the crisis, changes have been made in 2011 that brought new regulations for some aspects of unemployment insurance. Firstly, the amendment allows part-time workers to benefit from unemployment insurance. Also, 30% of the unemployment insurance fund is devoted to fighting unemployment. Short-time work allowance rates are increased. The amendment also provides incentives for employers to hire the unemployed that are registered in the Turkish Employment Organisation.

## 5.2. Policy Responses to Social Dialogue

Majority of the government's policies targeting the crisis took place as a result of a social dialogue between the government and the unions and confederations. Lobbying activities of the unions and confederations through several social dialogue mechanisms had an important influence on the policymakers. TÜRK-İŞ and TESK have been two of the most active social dialogue stakeholders contributing to the government's policies regarding workers', craftsmen and tradesmen's conditions during the crisis period.

The Confederation of Turkish Trade Unions (TÜRK-İŞ) has been an active participant of the social dialogue process that took place during the crisis period. As the worker representative institution with the highest number of members, TÜRK-İŞ participated in the meetings of the Economic and Social Council, Tripartite Advisory Board and the Technical Committee for Employment of the Coordination Council for the Improvement of Investment Environment (YOIKK). In its "Measures for the Economic Crisis Report", presented to the Tripartite Advisory Board in January 2009, TÜRK-İŞ proposed several measures that would protect workers from being laid off, on account of the global economic crisis. These measures include;

- Provision of a condition on the social security contributions, stating that no worker should be laid off on account of the crisis
- Restructuring of debts, demanded by TESK, should include consumer credits and credit card debts
- Utilization and increase of unemployment benefits, using the Unemployment Insurance Fund
- Protection and improvement of the right to acquire severance payments
- Increasing the purchasing power of public sector employees and therefore domestic demand by collective bargaining for the civil servants.

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<sup>21</sup> Collective bargaining led by Çelik-İş in the steel sector in 2009, examined in section 3.2.2., provides a good example for voluntary wage flexibility.

Efforts made by TESK have also been an important example on lobbying for a policy change that will respond to a necessity that has emerged as a result of the global economic crisis. TESK, with its two million members, had a strong effect in shaping policy during the crisis. TESK's influence has been seen mainly on three aspects of debt restructuring. The first was the restructuring of its members' debt to the state. Because the majority of its members are micro-sized enterprises, credit card debts formed a large part of TESK members' debts. Due to increased difficulty for the owners of these micro-sized enterprises in paying back the credit card debts, TESK actively lobbied for debt restructuring. As a result of these efforts, the restructuring of credit card debt payments was implemented in 2009 by the government.

In 2010, due to the increasing debt burden originating from unpaid social security support contributions, tradesmen and craftsmen demanded restructuring in social security support contribution payments. In response, TESK carried out negotiations with Social Security Institution (SGK). Consequently, SGK allowed postponement of the payments, and payment of debt in instalments<sup>22</sup>.

Following similar efforts by TESK, a third type of debt restructuring, restructuring payments for assets that are transferred to asset management companies was arranged in 2011. TESK also collaborated with Small and Medium Sized Enterprises Development Organization (KOSGEB) to implement "Zero Interest Lifeline Credit Support Programme" in order to provide credit with zero interest rate for craftsmen and tradesmen<sup>23</sup>.

## VI. Conclusion

Turkey faced several economic crises in the 1990s and early 2000s, and it is fair to say these experiences helped Turkey recover much more rapidly than the other countries from the 2008 economic crisis. Especially after the 2001 crisis of the banking sector, Turkey strengthened its banking sector to a great extent and successfully implemented an inflation targeting programme that reduced inflation significantly in a few years. This experience, as well as the cumulative knowledge formed by the previous crises, helped Turkey recover from the 2008-2009 crisis without serious damage in the financial sector.

The main mechanism through which Turkey was affected from the crisis was the decline in export demand, caused by instabilities in the outside economies and mainly the EU, and a decline in domestic demand. Due to the slow-down in the real sector as opposed to the financial sector, these changes occurred much later in the Turkish economy, compared to other countries. This trend has been the main reason for the Turkish government's lack of intervention at the initial stages of the crisis. In the words of the Prime Minister of Turkey, the crisis would not have even slightly touched Turkey. When domestic demand was affected, however, private

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<sup>22</sup> TESK Notice No. TŞKI.SG-1.13.10/309, 10.08.2010

<sup>23</sup> TESK Notice No.AR.GE.GK.100.08/4296, 19.11.2008

sector felt the need to do something before the effects became greater. The nation-wide campaigns targeting consumers were created by the private sector to stimulate domestic demand and therefore revive the economy. As a response to the increase observed in unemployment rates, the private sector again initiated a project both to increase employment during crisis and to solve the structural unemployment problem, caused by a skills mismatch. It must also be noted that especially the rising unemployment rates induced the government to implement policies to mitigate the effects of the crisis. These policies were explained in the previous sections.

In this particular crisis environment, social dialogue responses varied in different levels of the economy. While the cumulative knowledge gained through previous crisis experiences has been an important asset for all levels; national, sectoral and company levels required different types of responses. National level responses in the form of trade union and employer's organization and lobbying activities have been successful due to their portrayal of solidarity between different interest groups. On the other hand, sectoral and company level responses depended more on voluntary efforts of trade unions and individual managerial skills and experiences. The nature of these responses has also been quite spontaneous, due to the government's relatively late response to the global economic crisis.

In spite of this picture of solidarity portrayed at the national level, industrial relations in Turkey have historically been weak due to political circumstances after the 1980 military intervention; and trade unions stayed weak and unorganised. The bottlenecks in social dialogue, especially in the form of disruption in identifying the eligibility of trade unions for collective bargaining process since 2009, caused trade unions to remain weak and seek solutions through other social dialogue mechanisms than collective bargaining during the rest of the crisis period.

Having said that the government failed to act in the first instance to solve the problems caused by the crisis, it must also be added that, considerable attention and support were given to the projects initiated by private sector stakeholders. In the end, it was this collaboration of social dialogue partners that presented a solution to the crisis.

The bottlenecks mentioned above regarding social dialogue in Turkey have also been recognized by all partners of social dialogue. The new law on trade unions and collective bargaining, passed on 18 October 2012, includes changes in the previous law with the aim of removing the bottlenecks in question. Social dialogue in industrial relations is expected to continue more efficiently in Turkey in the upcoming years.

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